

Bell Atlantic
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Kenneth Rust
Director, Federal Regulatory Affairs

EX PARTE OR LATE FILED



June 12, 1998

Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

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JUN 12 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **CC Docket Nos 96-45 & 97-160**

Dear Ms. Salas:

On Wednesday, June 10, Mr. Ed Lowry, representing Bell Atlantic, met separately in Seattle, Washington, with Ms. Martha Hogerty, Public Counsel for the State of Missouri and member of the Federal/State Joint Board in CC. Docket 96-45, and Mr. Thor Nelson of the Colorado Office of the Consumer Counsel and member of the Joint Board Staff. The discussion concerned the filing made by Bell Atlantic on May 15 in the items captioned above. The attached material served as the basis for the presentation during each meeting.

Any questions on this filing should be directed to me at either the address or the telephone number shown above.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Ken. Rust'.

Attachments

cc: M. Hogerty
T. Nelson

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Bell Atlantic's Modifications to the Ad Hoc Proposal

Bell Atlantic's modifications to Ad Hoc's Proposal were filed at the Federal Communications Commission on May 15, 1998. The Bell Atlantic proposal provides a reasonable alternative to maintain high cost funding at the existing level (\$1.7B) as opposed to alternative proposals that suggest funding above \$6B. This proposal is consistent with Bell Atlantic's policy of developing a sufficient fund that is targeted to states. In addition, these modifications address significant cost differences among states and minimize the flow between the states.

Attachment 1 provides a summary of the modified federal Universal Service Fund by state.

The following are the highlights of Bell Atlantic's proposed modifications to the Ad Hoc platform:

Produces a fund size of approximately \$1.7B, which includes LTS, high cost and DEM. Ad Hoc's high cost proposal produces a fund size of approximately \$2.3B when Long Term Support (LTS) is added back into their high cost results.

This plan uses a statewide weighted average of 50% actual cost and 50% forward-looking cost (a combined HAI 5.0a and BCPM 3.1).

Use of any one proxy model carries a significant risk of over-estimating or under-estimating the amount of high-cost support that is needed. (Attachment 2)
Averaging of the proxy models and combining with actual costs results in no one proxy model weighted more than 25% and smoothes out the variances between models.
Calculating statewide costs further mitigates the large variances associated with smaller geographical areas.
In contrast, the Ad Hoc proposal now uses the latest Hatfield Model (HAI 5.0a), which tends to underestimate forward-looking costs.

Incorporates the current threshold cost benchmark of 115% of the nationwide average cost to determine today's high cost fund to recover all costs above the benchmark. Revenues vary depending upon state pricing policies, while costs remain relatively stable. As such, the benchmark should be based on statewide average costs and not revenues.

The plan provides for different transition plans for rural and non-rural companies.

Non-rural companies are defined as operating companies with greater than 100K lines at the statewide level and/or companies having 1 million or more lines at the holding company level.

The change in universal service funding for non-rural companies is phased in over three years. Current funding levels are not maintained indefinitely.

Rural companies support continues at current levels for at least three years. The FCC will evaluate rural companies in a separate proceeding.

The Bell Atlantic modifications will keep insular, high cost areas such as Alaska, Hawaii,

Guam, Puerto Rico, Malaysia, and the Virgin Islands at current funding levels. The basis for this decision is that forward-looking models either do not calculate costs for these areas or have not yet incorporated the costs associated with all of their operating companies.

Bell Atlantic's modifications to Ad Hoc's Proposal provide the following benefits:

- Keeps the fund to a sufficient and manageable size, and would not place an excessive burden on ratepayers or cause massive revenue shifts.

- Better targets high-cost states.

- Maintains federal/state partnership.

- Provides for a transition to allow policymakers and companies to adjust.

- Creates a simple plan that can be implemented by January 1999.

Proposed Modifications to Ad Hoc's Plan

Attachment 1

A	B	C	D	E	F	G	H
	USAC Loops & Subsidy			Calc. New Statewide USF Sub.			
State	Sum of USF Loops	Current Statewide Subsidy, Annualized (USF, DEM, LTS)	Hold Harmless for Small Companies	50% Comb & 50% Actual AMC	New Statewide USF using 50% Comb & 50% Actual AMC	Proposed Support	Change over 3 Years
AK	377,416	\$62,597,604	\$62,597,604	\$36.50	\$62,597,604.00	\$62,597,604	\$0
AL	2,312,101	\$39,274,860	\$22,682,400	\$36.22	\$25,386,868.98	\$25,386,869	(\$13,887,991)
AR	1,318,280	\$70,701,192	\$36,147,528	\$43.01	\$95,034,805.20	\$95,034,805	\$24,333,613
AZ	2,541,549	\$28,723,608	\$10,189,632	\$32.02	\$0.00	\$10,189,632	(\$18,533,976)
CA	20,809,546	\$55,285,308	\$30,822,924	\$24.56	\$0.00	\$30,822,924	(\$24,462,384)
CO	2,452,764	\$45,893,436	\$41,073,084	\$34.23	\$0.00	\$41,073,084	(\$4,820,352)
CT	2,010,578	\$1,399,680	\$1,399,680	\$30.17	\$0.00	\$1,399,680	\$0
DC	901,311	\$0	\$0	\$17.43	\$0.00	\$0	\$0
DE	507,860	\$0	\$0	\$24.95	\$0.00	\$0	\$0
FL	9,897,855	\$24,235,140	\$16,963,092	\$29.14	\$0.00	\$16,963,092	(\$7,272,048)
GA	4,513,317	\$72,279,888	\$49,460,556	\$34.35	\$0.00	\$49,460,556	(\$22,819,332)
HI	693,630	\$897,516	\$897,516	\$32.09	\$897,516.00	\$897,516	\$0
IA	1,539,592	\$27,500,136	\$25,868,916	\$37.10	\$29,098,288.80	\$29,098,289	\$1,598,153
ID	642,252	\$28,936,632	\$16,425,936	\$38.94	\$22,774,255.92	\$22,774,256	(\$6,162,376)
IL	7,714,111	\$21,584,928	\$19,964,484	\$26.11	\$0.00	\$19,964,484	(\$1,620,444)
IN	3,342,142	\$16,500,984	\$15,503,484	\$30.62	\$0.00	\$15,503,484	(\$997,500)
KS	1,523,369	\$57,721,656	\$39,261,888	\$38.11	\$42,639,098.31	\$42,639,098	(\$15,082,558)
KY	1,986,504	\$25,611,804	\$11,208,288	\$37.42	\$43,266,057.12	\$43,266,057	\$17,654,253
LA	2,340,006	\$67,614,840	\$65,039,544	\$35.05	\$1,053,002.70	\$65,039,544	(\$2,575,296)
MA	4,273,186	\$417,600	\$417,600	\$26.88	\$0.00	\$417,600	\$0
MD	3,344,003	\$588,636	\$588,636	\$25.98	\$0.00	\$588,636	\$0
ME	775,211	\$16,551,732	\$16,335,516	\$39.98	\$34,744,957.02	\$34,744,957	\$18,193,225
MI	6,028,449	\$33,670,200	\$29,644,908	\$28.34	\$0.00	\$29,644,908	(\$4,025,292)
MN	2,773,994	\$37,414,656	\$33,343,980	\$32.61	\$0.00	\$33,343,980	(\$4,070,676)
MO	3,192,721	\$50,440,560	\$28,167,648	\$34.95	\$0.00	\$28,167,648	(\$22,272,912)
MS	1,270,809	\$28,165,488	\$16,627,044	\$43.91	\$101,906,173.71	\$101,906,174	\$73,740,686
MT	488,467	\$44,155,068	\$42,809,556	\$50.35	\$67,481,716.05	\$67,481,716	\$23,326,648
NC	4,453,425	\$40,577,496	\$22,666,872	\$34.42	\$0.00	\$22,666,872	(\$17,910,624)
ND	393,678	\$21,197,016	\$21,197,016	\$46.58	\$41,029,121.16	\$41,029,121	\$19,832,105
NE	958,710	\$19,706,664	\$18,646,644	\$40.19	\$44,781,344.10	\$44,781,344	\$25,074,680
NH	770,057	\$9,046,716	\$8,177,904	\$34.53	\$0.00	\$8,177,904	(\$868,812)
NJ	5,894,627	\$3,282,276	\$1,153,296	\$23.25	\$0.00	\$1,153,296	(\$2,128,980)
NM	862,940	\$35,243,244	\$26,002,800	\$39.79	\$37,201,343.40	\$37,201,343	\$1,958,099
NV	1,122,489	\$8,859,732	\$7,675,524	\$25.88	\$0.00	\$7,675,524	(\$1,184,208)
NY	12,308,488	\$37,931,772	\$24,083,412	\$29.56	\$0.00	\$24,083,412	(\$13,848,360)
OH	6,488,115	\$14,766,612	\$14,766,612	\$29.23	\$0.00	\$14,766,612	\$0
OK	1,869,687	\$59,899,752	\$45,769,176	\$37.69	\$45,265,122.27	\$45,769,176	(\$14,130,576)
OR	1,909,459	\$37,091,748	\$34,728,912	\$33.79	\$0.00	\$34,728,912	(\$2,362,836)
PA	7,669,723	\$25,552,656	\$15,280,380	\$25.86	\$0.00	\$15,280,380	(\$10,272,276)
PR	1,188,082	\$145,852,320	\$145,852,320	\$38.85	\$145,852,320.00	\$145,852,320	\$0
RI	625,327	\$0	\$0	\$27.68	\$0.00	\$0	\$0
SC	2,042,697	\$45,209,328	\$28,352,844	\$36.94	\$35,665,489.62	\$35,665,490	(\$9,543,838)
SD	395,137	\$16,806,792	\$16,806,792	\$47.55	\$44,630,724.15	\$44,630,724	\$27,823,932
TN	3,161,392	\$27,766,632	\$27,766,632	\$33.42	\$0.00	\$27,766,632	\$0
TX	11,286,718	\$124,215,300	\$91,359,504	\$32.34	\$0.00	\$91,359,504	(\$32,855,796)
UT	1,022,290	\$8,403,012	\$8,403,012	\$30.62	\$0.00	\$8,403,012	\$0
VA	4,166,624	\$13,671,552	\$8,995,884	\$29.63	\$0.00	\$8,995,884	(\$4,675,668)
VT	380,284	\$11,843,472	\$9,869,256	\$43.12	\$27,791,154.72	\$27,791,155	\$15,947,683
WA	3,333,124	\$43,494,372	\$17,281,152	\$31.40	\$0.00	\$17,281,152	(\$26,213,220)
WI	3,172,890	\$51,445,152	\$45,912,648	\$30.36	\$0.00	\$45,912,648	(\$5,532,504)
WV	930,411	\$21,184,260	\$3,124,524	\$42.69	\$64,393,745.31	\$64,393,745	\$43,209,485
WY	272,633	\$21,358,524	\$16,614,036	\$46.93	\$29,272,605.21	\$29,272,605	\$7,914,081
St. DC & PR	166,250,030	\$1,702,569,552	\$1,293,928,596	\$30.36	\$1,042,763,314	\$1,713,045,360	\$10,475,808
GU	0	\$1,065,924	\$1,065,924	n/a	\$1,065,924	\$1,065,924	\$0
MCR	18,837	\$4,910,796	\$4,910,796	n/a	\$4,910,796	\$4,910,796	\$0
VI	58,315	\$16,245,684	\$16,245,684	n/a	\$16,245,684	\$16,245,684	\$0
Total	166,327,182	\$1,724,791,956	\$1,316,151,000	n/a	\$1,064,985,718	\$1,735,267,764	\$10,475,808

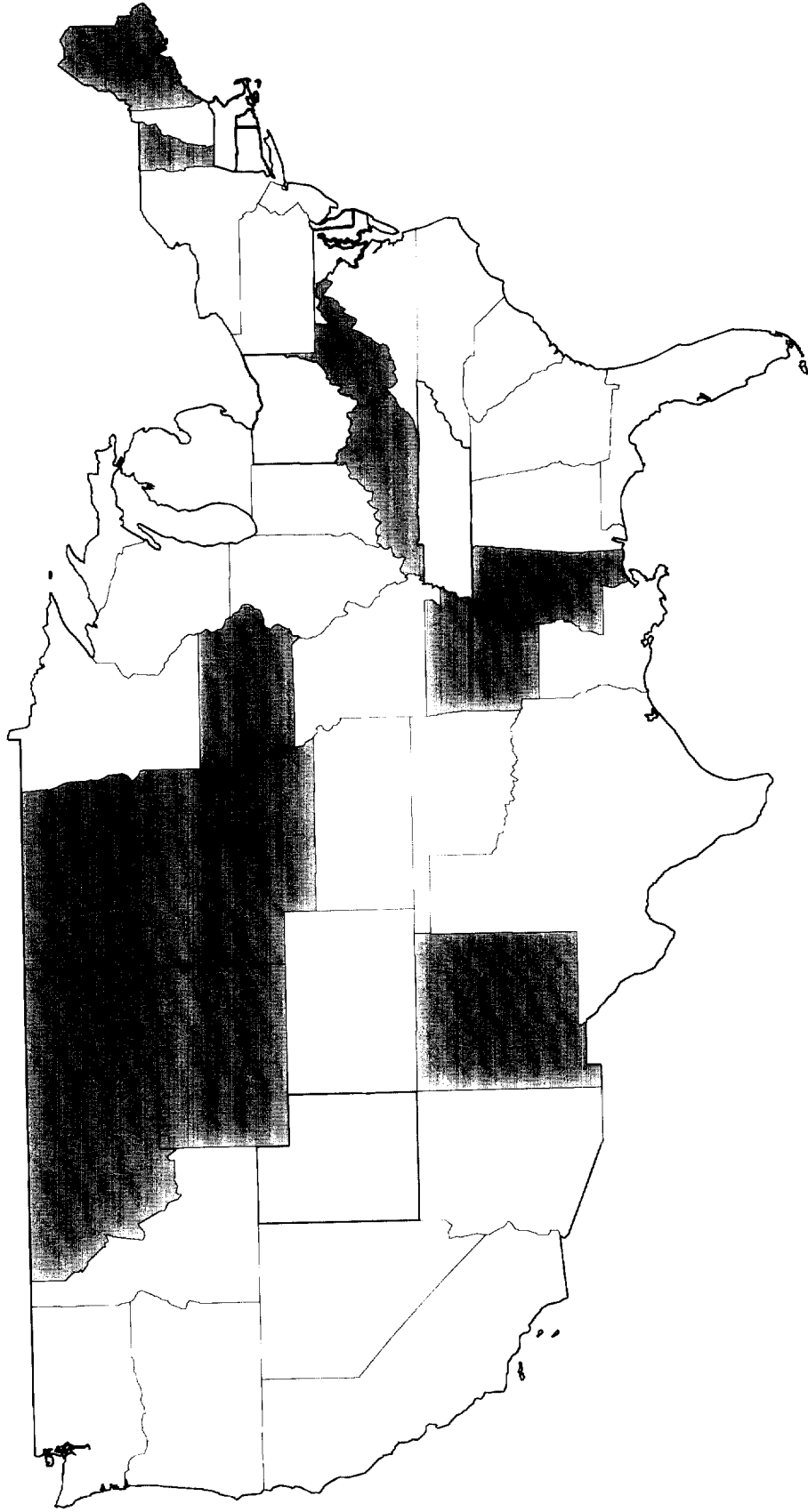
Comparison of HAI 5.0a and BCPM 3.1 Model Results By State

Attachment 2

State	Current Statewide Subsidy, Annual (USF, DEM, LTS)	BCPM 3.1 Cost Above 115% of Average	HAI 5.0a Cost Above 115% of Average
AK	\$62,597,604	\$0	\$0
AL	\$39,274,860	\$152,168,495	\$126,992,274
AR	\$70,701,192	\$218,950,068	\$116,228,336
AZ	\$28,723,608	\$0	\$0
CA	\$55,285,308	\$0	\$0
CO	\$45,893,436	\$0	\$0
CT	\$1,399,680	\$0	\$0
DC	\$0	\$0	\$0
DE	\$0	\$0	\$0
FL	\$24,235,140	\$0	\$0
GA	\$72,279,888	\$0	\$0
HI	\$897,516	\$0	\$0
IA	\$27,500,136	\$214,800,159	\$111,552,492
ID	\$28,936,632	\$49,199,630	\$59,249,906
IL	\$21,584,928	\$0	\$0
IN	\$16,500,984	\$0	\$0
KS	\$57,721,656	\$75,400,422	\$112,197,939
KY	\$25,611,804	\$134,792,841	\$63,198,388
LA	\$67,614,840	\$0	\$0
MA	\$417,600	\$0	\$0
MD	\$588,636	\$0	\$0
ME	\$16,551,732	\$54,065,464	\$58,096,845
MI	\$33,670,200	\$0	\$0
MN	\$37,414,656	\$45,280,654	\$63,792,371
MO	\$50,440,560	\$113,621,889	\$71,267,931
MS	\$28,165,488	\$216,088,713	\$142,120,937
MT	\$44,155,068	\$95,530,200	\$176,197,337
NC	\$40,577,496	\$0	\$72,106,943
ND	\$21,197,016	\$76,698,494	\$143,408,563
NE	\$19,706,664	\$74,939,491	\$149,462,106
NH	\$9,046,716	\$0	\$0
NJ	\$3,282,276	\$0	\$0
NM	\$35,243,244	\$43,262,499	\$85,345,666
NV	\$8,859,732	\$0	\$0
NY	\$37,931,772	\$0	\$0
OH	\$14,766,612	\$0	\$0
OK	\$59,899,752	\$151,393,528	\$119,521,033
OR	\$37,091,748	\$0	\$0
PA	\$25,552,656	\$0	\$0
PR	\$145,852,320	\$0	\$0
RI	\$0	\$0	\$0
SC	\$45,209,328	\$63,294,482	\$14,273,046
SD	\$16,806,792	\$94,709,493	\$138,214,018
TN	\$27,766,632	\$15,420,215	\$14,579,688
TX	\$124,215,300	\$0	\$0
UT	\$8,403,012	\$0	\$0
VA	\$13,671,552	\$0	\$0
VT	\$11,843,472	\$39,495,205	\$23,270,357
WA	\$43,494,372	\$0	\$0
WI	\$51,445,152	\$8,180,374	\$0
WV	\$21,184,260	\$144,567,554	\$100,460,881
WY	\$21,358,524	\$33,083,223	\$51,622,946
St. DC & PR	\$1,702,569,552	\$2,114,943,093	\$2,013,160,003

The subsidy amount for each state equals the respective proxy model's statewide cost in excess of of the model generated national average. In addition, the subsidy was calculated using each moc

Funding Level Impact



Increased